

**Question 2 from August 3, 2005, letter:**

**Please identify which federal departments and agencies are either in the process of implementing or have implemented robust performance management systems.**

**Please include an update on the progress of implementation of the new performance management systems for the Senior Executive Service.**

# PERFORMANCE MANAGEMENT IMPROVEMENT AND AGENCY READINESS

Over the last three years OPM has been working with agencies on performance management improvements to ensure robust performance management systems – a critical requirement for successful performance-based pay systems – are in place or being put in place for a significant portion of each agency’s workforce, beginning with the Senior Executive Service. (See Table 1 on page 8.)

## **PERFORMANCE MANAGEMENT FOR SENIOR EXECUTIVES**

Executives are the most important change agents when it comes to enhancing or replacing performance management systems. The Office of Personnel Management (OPM) has had a year of leadership and oversight experience implementing new certification requirements for agency Senior Executive Service (SES) performance appraisal systems. The entire SES is under an enhanced performance-based pay system. Pay changes are based totally on performance. Stronger distinctions in performance are being made, with previous cases of extremely high and implausible percentages of *Outstanding* ratings declining so that the “outstanding” description can truly carry its intended connotation of “stands out as an exception.” Base pay increases in higher amounts and greater proportion are going to higher performing executives. As a further enhancement and incentive to improve performance management practices and results, agencies that meet OPM and congressionally mandated requirements for effective appraisal systems may offer higher rates of base pay to their senior executives.

## ***RESULTS***

OPM has seen diligent, thoughtful, and rigorous implementation of the new system. For most agencies, the SES performance-based pay system is their first experience with a system where base pay is set and adjusted using an open pay range without fixed rates or steps.

## **STRATEGIC COMPENSATION.**

### **Pay adjustments and awards are based on performance.**

- Performance Review Boards are using the results of the appraisal system to make recommendations about awards; some are also engaged in recommending pay adjustments.
- In general, results show executives rated *Outstanding* receive higher pay adjustments than executives rated at a lower level.

## **EFFECTIVE PERFORMANCE MANAGEMENT.**

### **Agencies are holding executives accountable for achieving results that are clearly tied to organizational goals.**

- Information about the linkage between mission goals and individual executive accountability is reviewed during the certification process. Executives are now actively incorporating into their performance plans specific business results with clear measures of performance.
- Performance plans that merely hold executives accountable for “providing leadership” or “managing a program” do not meet the certification criteria without also including specific organizational goals and targets to be achieved, with measurable standards.
- With respect to rating distribution, OPM looks for a relationship between the rating distribution and the performance of the agency, as determined through the agency’s Performance and Accountability Report (PAR), results of applying the OMB Program Assessment Rating Tool (PART) on agency programs, or other organizational performance reports the agency provides.

### **Agencies are assessing organizational unit performance, communicating that performance to rating officials, and ensuring their rating distribution reflects the unit’s performance.**

- OPM and OMB review organizational performance information during the certification process.
- OPM is no longer seeing agencies with 100 percent of their executives rated at the highest level allowed by their system while the agency is failing to meet its performance targets.

### **Agencies are making distinctions in levels of performance.**

- Many agencies that were not previously making *any* distinctions across levels of performance are now making those distinctions and are identifying and rewarding their top performers. In addition to being clearer and more beneficial to the executives themselves, providing such differential feedback makes the overall system more credible and useful to customers and other stakeholders.
- The average percentage of executives rated at the top performance level used by their systems went from 80.6 percent in 2001 to 55.5 percent in 2004. Agency-specific changes are shown in Table 2 on page 9. While agencies have continued to make progress, there is still more work to be done.

### **Agencies are holding executives accountable for the performance management of subordinates.**

- This new requirement established in the certification regulations ensures that leadership and supervisory responsibilities are among the performance elements upon which an executive is rated, demonstrating the importance of that aspect of executive responsibility.
- OPM reviews executive performance plans to ensure that this element is included.

### **Agencies are establishing oversight and accountability systems for their SES performance-based pay system.**

- During the certification process, agencies must describe to OPM their oversight and accountability systems.

- A high-level official at the headquarters level within an agency is held accountable for the implementation and operation of the system.

An agency example of how improvements are being made to performance management for senior executives follows:

### **IMPROVING RESULTS-FOCUSED SES PERFORMANCE MEASUREMENT**

OPM works with agencies to improve their SES performance plans, particularly in the way performance measures are established. In 2004, OPM's review of performance plans from the Environmental Protection Agency (EPA) showed they needed to improve the results focus and measures of performance. As a result, EPA refined its approach to assessing executive performance. Previously, EPA appraised executives solely on critical elements, mirroring the Governmentwide Executive Core Competencies (ECQs). These critical elements had only fixed requirements, except for "Results Driven" – which is one of the six general ECQs – which, in addition, tried to capture business results in commitments developed by each executive. After consultation with OPM, EPA revised its performance plans to place more emphasis on these commitments:

- The first part of each plan has fixed elements and requirements that focus on the ECQs.
- The second part is titled "Individual Commitments" and focuses on specific business results to be achieved by the executive and the organization for which he or she is accountable.

To help executives strengthen their commitments, EPA's website now contains some "model" performance plans as well as guidance (including examples from OPM) for developing good commitments. This new approach is intended to better balance executive focus on competencies and achieving results.

Example of EPA's old and new approach to establishing executive performance elements and requirements:

<b>Original Element and Requirement</b>	<b>Revised Element and Requirement</b>
<i>Results Driven, Individual Commitments:</i> Demonstrates leadership in implementing the Water Quality Accountability in collaboration with States. [Stated in part; full plan included additional requirements]	<i>Results Driven, Individual Commitments:</i> Eighty percent of the Division's grants are awarded within 60 days of receipt of a complete application. The backlog of Congressional earmarks is reduced by 50 percent.

## ***IMPLEMENTATION***

The implementing regulations issued jointly by OPM and the Office of Management and Budget (OMB) in 2004 for appraisal system certification requirements recognized the variation found in the quality of SES appraisal systems Governmentwide, and OPM established a process for providing provisional as well as full certification. This gave agencies access to pay increases while working to enhance their appraisal systems further. OPM also issued the regulations implementing the new pay system and its more stringent requirements for linking performance and pay. OPM held several forums for agencies to announce and review the certification criteria and pay regulations.

### **FUNDING.**

- Implementing the executive performance-based pay systems in the agencies entails very little startup investments or costs.
- Agencies establish internal pay policies for making pay adjustment and award determinations, under general Governmentwide regulations and limitations.
- Agencies fund their performance-based pay increases and awards out of their existing budgets.

### **LEADERSHIP.**

- The head of the agency or designee must have oversight and accountability for the appraisal and pay of executives.
- All recommended ratings and awards – and in most agencies pay adjustment recommendations – are reviewed by agency Performance Review Boards, which make the final recommendations to the agency head (or designee), who makes the final decisions. This process ensures rating and reward distinctions are fair and credible.
- During the certification process, OPM ensures that the agency system provides for oversight and accountability.
- Agencies have demonstrated their serious commitment to effective implementation of the executive performance-based pay system. The imperative to establish and maintain credible, transparent systems clearly aligned to agency mission is clear.
- Agencies have worked cooperatively to share best practices and to apply OPM feedback and technical assistance to improve their appraisal system features and operations.

### **OVERSIGHT.**

- Internal and external oversight and accountability is a critical requirement for executive performance-based pay systems.
- OPM as the gatekeeper grants agencies provisional or full certification based on a stringent examination of the case the agency puts forward describing how its system meets the regulatory criteria. OMB must concur in the certification decision. To date only one agency, the General Services Administration, has received full certification for its SES appraisal system.
- SES appraisal system certification criteria require an agency to have an oversight and accountability system for their performance appraisal system.
- The process for certifying agency SES appraisal systems has required OPM to conduct thorough reviews of the systems, including detailed review of a sample of executive performance plans.

- During calendar year 2004, OPM reviewed the appraisal system and 10 percent of the executive performance plans (proportionately distributed across the agency) for each agency requesting certification.
- Agencies requesting recertification of their systems for a successive calendar year are subjected to another complete certification review. In particular, OPM analyzes the results of linking performance ratings to pay decisions – both for base pay and for performance bonuses – to ensure that the appraisal results are applied in a meaningful way.

## **PERFORMANCE MANAGEMENT FOR THE GENERAL WORKFORCE**

Agencies have exercised the strong senior level leadership necessary to:

- Replace pass/fail appraisal systems with multi-level systems
- Renegotiate union contracts as needed to allow for stronger performance management systems
- Consolidate disparate approaches into unified agency-wide systems
- Communicate new expectations in their agencies
- Link appraisal to agency and program mission, goals, and outcomes
- Hold employees accountable for results
- Differentiate among various levels of performance
- Provide consequences based on performance

Status of General Workforce Performance Management Systems in 2005 that meet the above requirements and are therefore considered to be “robust performance management systems”:

- Seventeen agencies with statutory Chief Human Capital Officers – encompassing 34 percent of the non-DOD, non-DHS large-agency workforce – have all managers and at least 60 percent of their non-manager workforce under such systems.
- The remaining agencies, encompassing 66 percent of the non-DOD, non-DHS CHCO Act agency workforce, have specific plans and timetables in place to put all managers and at least 60 percent of their non-manager workforce under such systems.
- DOD and DHS are taking the necessary steps to cover 819,000 non-SES employees by implementing performance management and performance-based pay systems in accord with their separate statutes and regulations.

With this strong foundation in place, OPM significantly raised the bar for performance management systems for FY 2006 by requiring that all managers be competent in and – in their own performance plans and ratings – be evaluated on effective management of employee performance. In addition, OPM is requiring agencies to assess the effectiveness of all their performance management and awards programs utilizing a Performance Appraisal Assessment Tool to help guide them through their assessments. The guidelines for assessment include a consolidated set of criteria that are consistent with the SES system certification criteria, and design elements the Congress established as required for any pay-for-performance demonstration project established under chapter 47 of title 5, United States Code.

Effective appraisal programs must provide for the following:

- **Alignment.** Employee performance plans align with and support organizational goals.
- **Results-focus.** Employee performance plans hold employees accountable for achieving results appropriate to their level of responsibility.
- **Credible measures.** Employee performance plans provide for clear measures of expected results.
- **Distinctions in levels of performance.** The appraisal program provides for multiple levels to appraise performance and rating officials use those levels to clearly describe distinctive levels of performance and appropriately rate employee performance.
- **Consequences.** The result of appraisal is used for recognizing top performers and addressing poor performance.
- **Employee Involvement.** Employees are involved in the design of the appraisal program and in the development of their performance plans.
- **Feedback and Dialogue.** The appraisal program establishes a performance feedback process that ensures a dialogue between supervisors, managers, and employees throughout the year.
- **Training.** The appraisal program requires that executives, managers, supervisors, and employees receive adequate training and retraining on the performance appraisal program.
- **Oversight and Accountability.** The head of the agency or designee has oversight of the results of appraisals and awards, ensures that the program operates effectively and efficiently, and ensures that appraisals and awards are based on performance. In addition, managers and supervisors are held accountable for the performance management of their subordinates.

In addition, each agency will designate a beta site where there is demonstrable evidence that all the criteria listed above have been met. Each agency must also demonstrate that they are working to include all agency employees under such systems.

OPM will evaluate the agencies' assessments and provide a Governmentwide evaluation of agency readiness for implementing performance-based pay systems, as well as to lead appropriate efforts to improve agency performance management systems where necessary.

An agency example of how improvements are being made to performance management follows:

## IMPROVING THE STRATEGIC ALIGNMENT OF EMPLOYEE PERFORMANCE PLANS

OPM reviewed non-SES performance plans to see whether they aligned with organizational goals, focused on results, and provided for making distinctions in levels of performance. Within the Department of Agriculture (USDA), the review showed the performance plans for employees in the Natural Resources Conservation Services (NRCS) held employees accountable for results that were hard to measure and not focused on the results they needed. Based on OPM's recommendation, NRCS took steps to change their elements to include measurable objectives that link to agency mission and demonstrate quantifiable results.

Example of the effect of adding measurable objectives to NRCS performance elements:

Original Element	Revised Element
<b>Element:</b> Demonstrates support for agency strategic goals and initiatives within own organizational unit and contributes to the achievement of overall agency initiatives. Stresses accountability and continuous improvement to employees/team member, makes timely and effective decisions, and produces results through strategic thinking and decisive action. Ensures a high degree of responsiveness....	<b>Element:</b> Mission Results Will achieve X # of wetlands acres for part of the Area (links to Measure #7 of National Performance Report) Will achieve X# of acres of agricultural land managed for the protection and enhancement of habitat for species with declining population for part of Area (links to Measure #21 of National Performance Report)  (Plus 27 other like objectives)

## AGENCY READINESS

OPM uses five indicators to assess agency readiness for the Working for America Act:

- Agency have received Full or Provisional status for their SES Appraisal System
- Agency differentiate between various levels of performance
- At least 60 percent of employees are covered by “robust performance management systems” as outlined by the performance management (culture) section of the PMA Strategic Management of Human Capital
- Human capital readiness assessment based on OPM internal evaluation of the agency from the perspective of both human capital leadership and merit system accountability
- Agency desire to implement alternative personnel systems

Based on analysis of agency positions on the indicators above and their progression on performance management improvement, the Department of Labor, Department of Justice and General Services Administration are examples of agencies who are well positioned to implement the requirements of the Working for America Act. . There are over 80,000 employees in these agencies who, if the Working for America Act is enacted, could be moved to pay for performance systems in 2007

OPM continues to provide guidance and support for agencies and will be looking for improvements in their 2006 PMA results and SES Certification submissions.



**Table 1: August 2005 Status of SES and Non-SES Employees Covered Under “Robust Performance Management Systems”**

Agencies	Number of SES Covered (100%)	SES Appraisal System Certification Status for CY2005	Number of Managers Covered (100%)	Total Number of Non-SES Employees Covered
<b>Agencies Scored Under the President’s Management Agenda</b>				
Agriculture	322	Provisional	11,501	11,501
Commerce*	342	Provisional	3,530	24,997
Defense	1,201	Pending	73,936	73,936
DHS	281	Provisional	19,163	19,163
Education*	93	Provisional	486	2,865
Energy*	431	Provisional	1,264	9,241
EPA	277	Provisional	1,432	1,432
HHS*	385	Provisional	5,340	40,013
GSA*	103	Full	1,822	8,150
HUD*	98	Provisional	1,259	6,423
Interior	259	Provisional	9,644	9,644
Justice*	606	Provisional	16,660	68,651
Labor*	181	Provisional	1,979	10,040
NASA*	426	Provisional	1,358	11,788
NSF*	84	No current request	35	769
OMB*	69	Provisional	79	322
OPM*	59	Provisional	314	3,201
SBA*	51	Provisional	516	2,580
Smithsonian	N/A	N/A	790	790
SSA*	140	Provisional	4,988	41,698
State*	168	No current request	3,053	15,754
Transportation*	202	Provisional	6,469	35,833
Treasury	430	Provisional	11,063	11,063
USAID*	21	No current request	662	1,642
VA	279	Provisional	18,544	18,544
<b>Agencies Not Currently Scored Under the President’s Management Agenda</b>				
<b>Certified</b>	326	9 Provisional	N/A	N/A
<b>Not Certified</b>	212	No current request or Pending	N/A	N/A
<b>Total</b>	<b>7,046</b>		<b>195,887</b>	<b>430,040</b>

\* Agency has met OPM 2005 requirements for performance culture (see page 5)

Totals for SES		Number of SES	Percentage
<b>Appraisal System Certified</b>	25 Provisional, 1 Full	4,892	<b>69%</b>
<b>Appraisal System Not Certified</b>	All other agencies	2,154	<b>31%</b>
<b>Total</b>		7,046	

Totals for All Non-SES Employees in PMA-Scored Agencies	Total w DOD/DHS	Percentage	Total w/o DOD/DHS	Percentage
<b>Agency Meets ’05 Requirements</b>	430,040	<b>24%</b>	336,941	<b>34%</b>
<b>In Progress</b>	1,389,017	<b>76%</b>	661,619	<b>66%</b>
<b>Total</b>	1,819,057		998,560	

**Table 2: Senior Executive Service Performance Ratings 2000, 2001 and 2004**

<b>Agencies</b>	<b>2000 Percent at Highest Rating Level</b>	<b>2001 Percent at Highest Rating Level</b>	<b>2004 Percent at Highest Rating Level</b>
Agriculture	37%	36%	44%
Commerce	84%	80%	49%
Defense	98% **	99% **	99%
DHS	Not Applicable	Not Applicable	85%
Education	100% *	100% *	99%
Energy	100% *	99% *	44%
EPA	86%	85%	61%
GSA	96%	92%	28%
HHS	91% **	91% **	52%
HUD	100% *	99% *	45%
Interior	100% *	100% *	22%
Justice	91%	91%	62%
Labor	68%	61%	45%
NASA	73%	76%	76%
NRC	100% *	100%	9%
NSF	83%	89%	81%
OMB	88%	20%	33%
OPM	91%	37%	47%
SBA	76%	82%	70%
SSA	100% *	100% *	56%
State	100%	99%	86%
Transportation	99% *	100% *	33%
Treasury	54%	63%	44%
USAID	95%	79%	53%
VA	56%	56%	64%

\* Agency used a “pass/fail” system, with no level above Fully Successful available

\*\* Most but not all of the agency was under a “pass/fail” system